



IN THE MATTER OF THE PETITION)	
OF THE TOWN OF KINGSFORD HEIGHTS).	CAUSE NO. 41438-U
MUNICIPAL ELECTRIC UTILITY)	
APPLICATION FOR RATE CHANGE)	APPROVED:

BY THE COMMISSION:

Gregory S. Colton, Administrative Law Judge

APR 2 6 2000

On May 10, 1999, the Town of Kingsford Heights, Indiana ("Petitioner") filed with the Indiana Utility Regulatory Commission ("Commission") its Petition for the approval of a new schedule of rates and charges for electric service pursuant to IC 8-1-2-61.5, the small utility filing procedure. In response to a petition signed by 34 ratepayers, a public field hearing was held on October 10, 1999, at 6:00 p.m. EST, at the Community Building in Kingsford Heights, Indiana. Members of the general public attended and were afforded the opportunity to testify and present their views at the field hearing. One member of the public testified and presented into evidence Exhibit FH-1. The Office of Utility Consumer Counselor ("OUCC") appeared and participated at the public field hearing. The Petitioner also appeared, by counsel, at the public field hearing.

The record was continued to October 26, 1999, at which time the Petitioner and the OUCC agreed to a schedule for the pre-filing of Petitioner's supplemental testimony, the prefiling of the OUCC's testimony and the date for a final evidentiary hearing in this Cause.

Pursuant to notice duly published as required by law, a public hearing was held in this Cause on December 2, 1999, at 2:00 p.m. in the Commission's Law Library located in the Indiana Government Center South, Indianapolis, Indiana. Petitioner, by counsel, the OUCC, and staff members of the Commission attended the evidentiary hearing. No members of the general public attended. At that time, the parties informed the Commission that a settlement had been reached. Petitioner offered into evidence its Exhibit B, the testimony of Sandra Barcikowski, and Exhibit A, consisting of: (1) Petition; (2) Proposed Notice of Application for Rate Change; (3) Proposed Written Notice of Application for Rate Change; (4) Completed Small Utility Rate Change Application; (5) Ordinance 99-04 Authorizing Application for Rate Change; (6) Verified Statement in Support of Application for Rate Change; (7) Report on Cost-of-Service and Rate Design. The OUCC offered into evidence its Exhibit No. 1, being the prefiled testimony of Michael D. Eckert, including Schedules 1-5. The parties agreed that the portions of OUCC Exhibit No. 1 concerning the Commission's rules for customer deposits would not apply to Petitioner in this Cause. All of the aforementioned exhibits were admitted without objection. By agreement of the parties, the record was kept open for the purpose of receiving two late-filed exhibits. Those exhibits, Ordinance No. 99-9, and a "Joint Stipulation and Agreement" between Petitioner and the OUCC ("Joint Exhibit 1"), were both filed with the Commission on March 30, 2000. By agreement of the parties, a Motion was filed on April 25, 2000 to withdraw the Joint Stipulation, which Motion was granted by a Docket Entry of the same date. Accordingly, the Joint Stipulation will not be considered a part of the record in this Cause.

Based upon applicable law and the record evidence herein and being duly advised, the Commission now finds that:

- 1. <u>Statutory Notice and Commission Jurisdiction</u>. Due, legal and timely notice of the public hearings conducted by the Commission in this Cause was given and published as required by law. Petitioner is a "municipally-owned utility" within the Public Service Commission Act, as amended, and the Commission has jurisdiction over the parties and the subject matter of this Cause, to the extent provided by the laws of the State of Indiana.
- 2. <u>Petitioner's Characteristics</u>. Petitioner is a municipal electric utility located in LaPorte County and serves approximately 561 customers in and around the Town of Kingsford Heights. Petitioner's existing facilities consist of approximately 12 miles of distribution lines. Petitioner purchases electricity from Cinergy pursuant to a power supply contract that took effect in February of 1998. Prior to Petitioner's contract with Cinergy, Petitioner purchased electricity from Northern Indiana Public Service Company.

Petitioner's current schedule of rates and charges was placed into effect pursuant to the Commission's June, 1996 Order in Cause No. 37999.

- 3. <u>Relief Requested</u>. Petitioner requested Commission approval of an overall decrease in its electric rates and charges that would result in a decrease in Petitioner's annual operating revenue in the amount of \$10,599.
- 4. <u>Test Period</u>. The test year selected by the Petitioner and also used by the OUCC in this Cause was the 12-month period ending December 31, 1998. With adjustments for changes that are sufficiently fixed, known and measurable, the Commission finds that the test year selected is sufficiently representative of the anticipated normal operation of the Petitioner's utility for ratemaking purposes.
- 5. <u>Field Hearing</u>. At the October 10, 1999 Field Hearing, a ratepayer offered into evidence Exhibit FH-1, consisting of a six page report essentially arguing that electric rates should be decreased by 20 to 22 percent. In support of the proposed decrease, the author of Exhibit FH-1 noted that the utility's cost of purchase power declined 29%, from \$.048 per kWh to \$.034 per kWh, as a result of the utility's recent decision to change its supplier from NIPSCO to Cinergy.

In response to Exhibit FH-1, Petitioner's witness Sandra Barcikowski testified that if rates were reduced by 20%, that would mean collecting \$79,000 less revenue from rates, which would not provide sufficient revenue to meet the financial requirements of the utility as set forth in I.C. 8-1.5-3-8. Ms. Barcikowski further testified that O&M expenses for 1998 already account for the reduction in power supply costs.

Although the straightforwardness of the computation used in Exhibit FH-1 is persuasive

on its surface, we note that it does not take into account increasing costs that are incurred by the utility. By law, Petitioner is entitled to rates that will allow it to recover those revenue requirements set forth in Ind. Code 8-1.5-3-8. Accordingly, we will examine each of those revenue requirements below in making our determination.

- 6. <u>Operating Revenue</u>. The Petitioner's testimony indicates that its <u>pro</u> <u>forma</u> operating revenues from rates and charges for the test period were \$403,549. The OUCC's witness Michael Eckert testified that Petitioner's <u>pro</u> <u>forma</u> operating revenues, <u>sans</u> sales tax revenues, were \$404,424. We find that Petitioner's figure of \$403,549 should be accepted.
- 7. <u>Petitioner's Revenue Requirement</u>. Indiana Code 8-1.5-3-8 establishes the revenue requirement elements which this Commission should consider in determining just and reasonable rates for a municipally-owned utility, such as Petitioner. Based on the evidence, we now make our findings on each revenue requirement element.
 - a. <u>Operating and Maintenance Expenses</u>. Petitioner proposed an annual revenue requirement for operation and maintenance expenses, including taxes but not PILT, of \$351,899. The OUCC's evidence supports a figure of \$354,756. We find that the OUCC's figure should be accepted.
 - b. <u>Debt Service</u>. Petitioner has no outstanding long-term debt and made no request for revenues to meet a debt service requirement. Accordingly, we find that Petitioner does not require any revenue for debt service.
 - c. <u>Payment in Lieu of Taxes</u>. Petitioner and the OUCC both state that Petitioner's revenue requirement for payment in lieu of taxes is \$3,000, which we find to be reasonable and supported by the evidence.
 - d. <u>Extensions and Replacements</u>. In Note 9 to page 7 of Petitioner's General Information, Petitioner states that its revenue requirement for extensions and replacements is in the amount of \$31,080. The OUCC's evidence is that the amount should be \$33,881. We find that Petitioner's figure is supported by the evidence and should be accepted.
 - e. <u>Interest Income</u>. The OUCC states that Petitioner will earn \$7,380 in interest per year and that said amount should be used as an offset to Petitioner's revenue requirements. We find this amount to be reasonable and supported by the evidence.
 - f. <u>Working Capital</u>. Petitioner requested \$2,933 of additional revenue for working capital. The OUCC's computations indicate that Petitioner does not require any additional revenue for working capital. Based upon the evidence, we find that Petitioner does not require any additional revenue for working capital.
 - g. <u>Return on Utility Plant</u>. There is no indication that Petitioner has elected to include a reasonable return on the utility plant of the municipality, and there is no

evidence in the record requesting any specific amount of return. We therefore will not include a return.

8. Annual Review Requirements. Based upon our findings above, we find that Petitioner's annual revenue requirements are as follows:

Operation and Maintenance Expense,	
including taxes	\$354,756
Debt Service	0
Payment in Lieu of Taxes	3,000
Extensions and Replacements	31,080
Working Capital	0
Less: Interest Income	(7,380)
TOTAL	\$381,456

We earlier found Petitioner's total <u>pro forma</u> operating revenue to be \$403,549, which is \$22,093 in excess of its aggregate annual revenue requirement of \$381,456 found above. Therefore, we find that Petitioner's operating revenue from sales of electricity at present <u>pro forma</u> rates should be decreased by \$22,093 so as to generate operating revenues from sales of electricity of \$373,845 which, when combined with Petitioner's other <u>pro forma</u> operating revenues of \$3,364, and forfeited discounts of \$4,247 will generate total operating revenues of \$381,456.

9. <u>Cost of Service and Rate Design</u>. Petitioner submitted a cost-of-service study prepared by Sawvel & Associates. The Commission has reviewed the revised cost-of-service study and finds that Petitioner's revised cost-of-service study is reasonable and should be used in establishing rates in this proceeding. Therefore, the Commission finds that Petitioner should file tariffs that are projected to generate total operating revenues from the sales of electricity of \$373,845, and are consistent with its revised cost-of-service study in this Cause.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

- 1. Petitioner is hereby authorized to decrease its annual revenue from rates and charges, in accordance with its recent cost of service study, by \$22,093, so as to produce total annual operating revenues of \$381,456.
- 3. Petitioner shall pay the following itemized charges within twenty (20) days from the date of this Order to the Secretary of the Commission:

Commission Charges	\$200.00
Reporting Charges	76.43
Legal Advertising Charges	33.29
Utility Consumer Charges	440.00
Field Hearing Expenses	<u>118.96</u>
TOTAL	\$868.68

Petitioner shall pay all charges prior to placing into effect the rates and charges approved herein.

- 4. Prior to placing in effect the new schedule of rates and charges approved herein, Petitioner shall file with the Engineering Division of the Commission a tariff schedule in accordance with our findings above and with the Commission rules for filing utility tariffs. Such tariffs, when filed and approved by the Commission, shall cancel all present and prior schedules of rates and charges. Petitioner shall contemporaneously file Appendix "A" Adjustment Tariffs setting forth the current Purchase Power Cost Adjustment Tracking Factor and the current Fuel Cost Adjustment Factor. Petitioner shall file both the tariff schedule and Appendix A within two weeks of the date of this Order.
 - 5. This Order shall be effective on and after the date of its approval.

HADLEY, RIPLEY, AND ZIEGNER CONCUR; SWANSON-HULL AND MCCARTY ABSENT: APPROVED:

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I hereby certify that the above is a true and correct copy of the Order as approved.

Joseph M. Sutherland,

Secretary to the Commission